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Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 /031 W
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R 171630Z APR 74
FM AMEMBASSY ROME
TO SECSTATE WASHDC 4365

C O N F I D E N T I A L ROME 5367

EXDIS

E.O. 11652: GDS
TAGS: ENRG, EIND, IT
SUBJECT: ESSO AND GULF REQUEST EMBASSY ASSISTANCE

1. SUMMARY. ESSO AND GULF HAVE APPROACHED US TO PROPOSE AN "INSTITUTIONALIZED RELATIONSHIP" DESIGNED TO HELP THEM TO SURVIVE IN THE ITALIAN MARKET. BOTH COMPANIES ARE WORRIED ABOUT CONTINUING LOSSES UNDER PRICE CONTROLS AND CONCERNED THAT A NATURAL GAS PRICE INCREASE WILL PUT THEIR STATE-OWNED COMPETITOR, ENI, INTO A FINANCIALLY DOMINANT POSITION. THEY BELIEVE THAT THEIR CONTINUED PRESENCE CONTRIBUTES TO US FOREIGN POLICY OBJECTIVES IN ITALY. COMPANY PRESIDENTS ARE NOT ASKING FOR US INTERVENTION THEIR BEHALF, FOR MOMENT. WE HAVE EXPLAINED LIMITATIONS ON WHAT EMBASSY CAN DO BUT HAVE EXPRESSED WILLINGNESS TO LISTEN FURTHER AND ARE SCHEDULING MEETING WITH AMBASSADOR IN EARLY MAY. ACTION REQUESTED

ANY WASHINGTON REACTION BY MAY 1.

2. ALDO SALA, PRESIDENT ESSO STANDARD ITALIANA, AND NICOLO PIGNATELLI, PRESIDENT GULF ITALIANA, APPROACHED THE ECON-COMM MINISTER APRIL 12 TO PRESENT REQUEST FOR EMBASSY ASSISTANCE IN MEETING CURRENT AND PROSPECTIVE PROBLEMS THESE TWO COMPANIES. SALA AND PIGNATELLI, BOTH ITALIAN NATIONALS, HAVE LONG BEEN WELL KNOWN TO US. THEIR APPROACH WAS APPARENTLY AT THEIR OWN INITIATIVE. IT IS NOT CLEAR WHETHER THEY HAD DISCUSSED MATTER WITH THEIR AMERICAN HEADQUARTERS.

3. ESSO AND GULF SHARE ABOUT 35 PERCENT OF THE ITALIAN MARKET.
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OTHER AMERICAN COMPANIES (TEXACO, CHEVRON, SONOCO) ARE MUCH SMALLER

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AND, WITH THE LIMITED EXCEPTION OF TEXACO, DO NOT SELL RETAIL AND ARE THUS IN A RATHER DIFFERENT POSITION. THE THIRD AMERICAN COMPANY, MOBIL, HAS A FRENCH MANAGER, WHO IS NOT CLOSE TO SALA OR PIGNATELLI, WHO HAVE KNOWN EACH OTHER FOR MANY YEARS.

4. THE COMPANY PRESIDENTS MADE THE FOLLOWING PRESENTATION:

(A) THEY ARE LOSING MONEY EVEN UNDER THE NEW FEBRUARY 20 PRICE INCREASES. THEIR LOSSES ARE SMALL, ATTRIBUTABLE PRINCIPALLY TO UNDERPRICING OF INDUSTRIAL FUEL OIL (WHICH IS TRANSLATING INTO A 700,000 TON SHORTFALL IN APRIL WHICH ITALIAN AUTHORITIES ARE TRYING TO REMEDY). PRICE INCREASES FOR GASOLINE HAVE BEEN OFFSET BY REDUCED CONSUMPTION AND DISTILLATE PRICES ARE WEAK THROUGHOUT EUROPE. BOTH COMPANY OFFICIALS ARE DISCOURAGED ABOUT CONTINUAL PRICE PROBLEMS THEY HAVE EXPERIENCED OVER RECENT YEARS AND TO WHICH THEY SEE NO END.

(B) THEY FEAR THAT ENI WILL GET THE SHARP INCREASE IN NATURAL GAS PRICES WHICH IT NOW SEEKS. WHILE THE RATIONALE FOR THIS INCREASE IS TO EQUATE MORE CLOSELY NATURAL GAS AND OIL PRICES, THE RESULT WOULD BE TO RESTORE ENI PROFITABILITY AFTER ITS HEAVY LOSSES SINCE OCTOBER 1973 AND EVENTUALLY TO PUT IT IN A COMPETITIVE POSITION WHERE IT CAN LAST OUT LOW OIL PRICES, REDUCE THE INTERNATIONALS TO BANKRUPTCY, AND TO BUY THEM OUT.

(C) SALA AND PIGNATELLI BOTH ARGUED THAT THE PRESENCE THEIR COMPANIES IN ITALY IS AN IMPORTANT ELEMENT IN US INVESTOR CONFIDENCE AND THUS IN US-ITALIAN ECONOMIC AND POLITICAL RELATIONS. THEY ARGUE THAT THERE IS A CONVERGENCE OF INTEREST IN KEEPING THEIR COMPANIES HERE, A VIEW WHICH IN ITS LARGER ASPECTS WE ACCEPT.

4. THE COMPANY PRESIDENTS PROPOSED AN "INSTITUTIONALIZED RELATIONSHIP" WITH THE EMBASSY, AN IDEA THEY WIS TO PRESENT TO THE AMBASSADOR IN THE NEXT FEW WEEKS. THEY ARE NOT CLEAR AT THIS POINT JUST HOW THE EMBASSY COULD BE OF ASSISTANCE TO THEM BUT MADE IT EVIDENT THAT THEY ARE NOT SEEKING ANY KIND OF HIGH LEVEL INTERVENTION ON THEIR BEHALF, AT LEAST AT THIS POINT.

5. SALA ALSO RAISED THE POSSIBILITY OF AN EVENTUAL ITALIAN GOVERNMENT WHICH COULD INCLUDE COMMUNISTS, STRESSING THAT HE DOES NOT CONSIDER THIS DEVELOPMENT LIKELY IN THE NEAR FUTURE. HE NONETHELESS POINTED OUT THAT HE HAS TWO OPTIONS: (A) CONTINUE TO STRUGGLE CONFIDENTIAL

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AS BEST HE CAN WITHIN THE PRESENT GOVERNMENT FOR DECENT TREATMENT OF HIS COMPANY, OR (B) START WORKING OUT A DEAL WITH THE SOCIALISTS AND EVENTUAL ACCOMMODATION WITH THE COMMUNISTS. THIS HE BELIEVES MIGHT BUY TIME FOR ESSO. IT WAS EVIDENT THAT SALA BELIEVES THAT LACK OF US SUPPORT COULD MAKE IT MORE DIFFICULT TO REFRAIN FROM COURSE (B).

6. ECMIN TOLD SALA AND PIGNATELLI THAT WE ARE SYMPATHETIC TO THEIR

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PROBLEMS, HOWEVER HE NOTED THE DIFFICULTIES OF THE MAJORS THROUGH-
IOUT THE WORLD AND THE DIVERGENCIES OF VIEW WITHIN THE US OVER THE
QUESTION OF THE MULTINATIONAL CORPORATIONS. HE EXPLAINED THAT THESE
FACTORS MIGHT INHIBIT CERTAIN KINDS OF SUPPORT. HE ALSO
NOTED THAT COMPANY PROBLEMS ARE IN LARGE PART RELATED TO INTERNAL
ITALIAN POLITICS, AN AREA WHERE WE HAVE FOUND OUR ABILITY TO IN-
FLUENCE EVENTS IS LIMITED. COMPANY PRESIDENTS ACCEPTED THIS
ANALYSIS.

7. COMMENT: WHILE WE DO NOT WISH TO EXAGGERATE PRECEDENT,
THIS CALL FOR USG COOPERATION AND SUPPORT REFLECTS A SIGNIFICANT
CHANGE IN COMPANY ATTITUDES. IT REFLECTS NOT ONLY THEIR DEEP DIS-
QUIET OVER THE FUTURE OF THEIR COMPANIES BUT A PERCEPTION THAT THEIR
ONCE POWERFUL AND INDEPENDENT ROLE IS CHANGING. IT MAY ALSO REFLECT
APPREHENSION BY OFFICIALS OVER THEIR POSITIONS, I.E., THAT THEIR
AMERICAN STOCKHOLDERS MAY GET DISCOURAGED AND SELL OUT. WE PLAN
TO LISTEN FURTHER IN MEETING WITH AMBASSADOR TENTATIVELY PLANNED FOR
EARLY MAY. IF THE DEPT. HAS ANY GUIDANCE IT WISHES TO PROVIDE US,
WE WOULD APPRECIATE RECEIVING IT PRIOR TO MAY 1. BEAUDRY

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, FUEL OIL, PETROLEUM INDUSTRY, GOVERNMENT MONOPOLIES, PRICE CONTROLS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 17 APR 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME05367
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740089-0493
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740436/aaaabgfo.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2002 by shawdg>; APPROVED <26 MAR 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ESSO AND GULF REQUEST EMBASSY ASSISTANCE
TAGS: ENRG, EIND, IT, ESSO, GULF
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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